



Should You Buy Enbridge (TSX:ENB) Stock for its 8% Dividend Yield?

Description

Dividend stocks are popular among investors, as they provide a predictable stream of income as well as the opportunity to benefit via long-term gains. However, not every company that pays a dividend is a good investment. As dividend payments are not a guarantee, you need to analyze the financials of the company to deduce if it's a good stock to hold.

One blue-chip Canadian stock is **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). This energy giant has a diversified base of cash-generating assets that has allowed it to increase dividends at an annual rate of 11% in the last 25 years.

In 2020, energy companies have been decimated due to COVID-19. This has meant Enbridge stock is trading 29% below its 52-week high, but it also provides investors with a tasty dividend yield of 8%. So, if you invest \$5,000 in Enbridge stock today, you will generate \$400 in annual dividend payments.

If the company increases these payouts at an annual rate of 5% over the next two decades, your dividends will increase to over \$1,000 per year at the end of the forecast period. Further, you will also benefit from long-term capital gains, and we can see how quality dividend stocks can create substantial wealth for investors.

Enbridge has a robust business model

Enbridge is one of the largest companies in Canada and has an enterprise value of \$150 billion. It is a midstream company, which means it is not impacted significantly by falling commodity prices. The company, in fact, generates over 95% of its EBITDA from regulated assets or long-term contracts.

In the third quarter of 2020, Enbridge's EBITDA fell by 3.6% year over year to \$3 billion. Comparatively, its distributable cash flow (DCF) was down 0.8% at \$2.08 billion, while its DCF per share fell 1% to \$1.03.

Its diversified base of assets and growth in the gas distribution and storage segment helped Enbridge offset weaker sales in the liquids pipelines business. In Q3, earnings from liquids pipelines were down

5% due to lower volumes while it rose by a healthy 23% in the gas and distribution business.

Enbridge is also investing heavily in renewable energy where Q3 earnings were up 13% year over year. The energy heavyweight [aims to reduce greenhouse gas emissions](#) intensity by 35% by 2030 and has a target to reach net zero emissions by 2050.

One way Enbridge will accelerate this goal is by growing its renewable energy portfolio. Enbridge owns 22 wind farms as well as several solar, hydro, and geothermal power-generating facilities. The company has projects where it can use renewable gas utilities from landfills that will replace natural gas for power generation.

The Foolish takeaway

Enbridge's impressive performance in Q3 has meant the stock is on track to deliver full-year distributable cash flow that was estimated between \$4.5 and \$4.8 per share. Its dividends per share of \$3.24 indicate a payout ratio of 70% for 2020, which means dividends are not under threat.

Enbridge aims to [expand its DCF between](#) 5% and 7% per share through 2022, allowing it to support future dividend growth. The company's strong balance sheet, stable cash flows, and low-risk business model mean Enbridge's 8% dividend yield is on solid ground.

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